

UNC Workgroup 0737 Minutes
Transfer of NTS Entry Capacity from an abandoned ASEP
Tuesday 03 November 2020
via Microsoft Teams

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Alex Nield	(AN)	Storengy
Adam Bates	(AB)	South Hook Gas
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Bill Reed	(BR)	RWE
Chris Wright	(CW _r)	Exxon Mobil
Christiane Sykes	(CS)	Shell
Colin Williams	(CW)	National Grid
Daniel Hisgett	(DHi)	National Grid
Dave Bayliss	(DB)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
Julie Cox	(JC _x)	Energy UK
John Costa	(JCo)	EDF Energy
Jonny Parlett	(JP)	Ceres Energy
Kamla Rhodes	(KR)	Conoco Phillips
Kirsty Ingham	(KI)	ESB
Laura Johnson	(LJ)	National Grid
Nick Wye	(NW)	Waters Wye Associates Ltd
Paul Youngman	(PY)	Drax
Richard Fairholme	(RF)	Uniper
Ricky Hill	(RHi)	Centrica
Sinead Obeng	(SO)	Gazprom
Steve Pownall	(SP)	Xoserve
Terry Burke	(TBu)	Equinor
<p>Copies of all papers are available at: https://www.gasgovernance.co.uk/0737/031120</p> <p>The Workgroup Report is due to be presented at the UNC Modification Panel by 17 December 2020.</p>		

1.0 Introduction and Status Review

1.1. Approval of Minutes (06 October 2020)

RH noted that Ofgem had provided some amendments to the 06 October 2020 minutes, and these were overviewed by the Workgroup participants.

The minutes from the 06 October were then approved.

1.2. Approval of Late Papers

There were no late papers.

2.0 Amended Modification

Nick Wye (NW) provided an overview of the draft amended Modification and drew attention to areas of specific interest in relation to the amendments or additions, and then proceeded to move through the sections, as detailed below:

Why Change Page 4: - Transfer of Capacity

For the avoidance of doubt, an “abandoned” ASEP for the purposes of this Modification refers to the transfer of NTS Entry Capacity away from the entry point and does not reflect the physical status of the entry point. The transfer of capacity does not require any further activities to be undertaken such as physical disconnection, or the removal of the ASEP from National Grid’s Transporter Licence (Special Condition 5F,27, Table 4B)

David O’Neill (DON) questioned whether the word ‘abandoned’ was correct in this context as he said it could lead to confusion and it was better to use an appropriate word than to redefine ‘abandoned’. NW said he would prefix with it with ‘capacity-abandoned’ to add context.

Solution Page 5: - Pre-Transfer Window

The window will be open for a period of [5] Business Days at the end of [February] each Gas Year and will be preceded by a Pre-Transfer Window notification [14] Business Days prior to the commencement of the “Abandoned ASEP Transfer Window”.

NW said that the square brackets [] that were currently included would be removed once the Business Rules had been added into the formally amended Modification v2.0 which he hoped would be sent to the Joint Office in the next day. He added that he would position the Business Rules at the end of the Solution section.

Workgroup Participants agreed that 10 Business Days would be adequate. NW agreed.

Completing the transfer – final qualification criterion Page 8:

Example 4:

In this example, User A will be permitted to transfer all requested capacity for periods October 2022, January 2023 and October 2024. For periods October 2023 and January 2024 there is insufficient unsold capacity and as a result the full transfer for these periods will not be permitted. The amount to be transferred will be capped at the unsold amount of 50 units for these quarters.

NW confirmed he had included this which was suggested at the previous meeting.

Treatment of Existing Contracts Page 8:

Where the exchange rate is not 1:1, the User liable to National Grid in relation to acquisition of Existing Capacity will remain liable for the full amount of the costs associated with the Existing Capacity holdings at the donor ASEP,

For example, where the User holds 100 units of Existing Capacity at the donor ASEP at a cost of £100 and the exchange rate applied for the transfer of capacity to the recipient ASEP is 2:1, the User will be allocated 50 units at the recipient ASEP, but remains liable for the full £100 associated with the original purchase of 100 units of Existing Capacity.

This arrangement ensures that the value of Existing Contracts is maintained, while permitting utilisation of the capacity at an alternative ASEP.

NW confirmed this was a clarification of continued liability for costs as discussed at the previous meeting.

Central Systems Impacts Page 10:

The Proposer anticipates that there will impacts on Gemini and UK Link invoicing systems and these will be assessed as part of the overall development of this Modification.

In relation to the Central Systems Impacts NW said that he was discussing this aspect further with Colin Williams (CW) National Grid and Xoserve after this meeting and further information would be encompassed within the amended Modification.

Rebecca Hailes (RH) asked if there was sufficient information contained in the Modification presently to enable the Rough Order of Magnitude (ROM) to be raised. Both CW, NW and Laura Johnson (LJ) all agreed that there was, however they said they would sense check this to ensure sufficient information was included.

New Action 1101: Centrica (NW), agreed to provide more information to include the abandoned and discrete elements within the amended Modification v2.0 to enable the Rough Order of Magnitude (ROM) to be raised by Xoserve.

New Action 1102: Joint Office (RH) to request the Rough Order of Magnitude (ROM) from Xoserve on receipt of the amended Modification.

Relevant Objectives Page 11:

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers; 	None

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The Modification better facilitates Charging Relevant Objective (a) as where NTS Entry Capacity is held at an ASEP where it will not be used, for reasons set out in this Modification, a User will continue to make a contribution to National Grid’s revenue where no service is required to be provided and therefore, no costs or minimal costs will be incurred by National Grid. The transfer of capacity from one such ASEP to another, where the Entry Capacity can be used by the transferring User ensures that National Grid will provide capacity services and as such the costs of the service are compensated by the capacity charges levied on the transferring User for the capacity held at that ASEP.

It follows that Charging Relevant Objective (c) is better facilitated as charges incurred by the User are more cost reflective insomuch as they represent the standard charge for capacity services for entering gas into the NTS (as applied at all ASEPs) where capacity services are being provided by National Grid. The application of an exchange rate ensures that the integrity of the NTS is maintained, while crystallising the cost of Existing Capacity which is subject to a transfer ensures that the obligations entered into at the time of acquisition of Existing Capacity are maintained. In combination, cost reflectivity is enhanced and User obligations are preserved while permitting greater utilisation of the NTS and the wider benefits which this generates are consistent with promoting effective competition between gas shippers.

NW confirmed he had added a little more detail.

Analysis - Transfer Request of 90 GWh/d from Caythorpe (donor) to Easington (recipient) Page 13

RH asked NW if it was his intention to keep this analysis section within the main part of the Modification or whether this was going to be contained within an appendix. NW confirmed that he wanted it to be included within the main body of the Modification.

Post Meeting Update – in V2.0 of Modification 0737 the analysis is included as part of Section 6 Impacts & Other Considerations

NW provided an overview of the analysis section and example tables, as referred to below:

The Proposer is able to provide analysis related to a specific ASEP where it holds NTS Entry Capacity and were this Modification Proposal to be implemented venture to transfer its holdings to an alternative ASEP. The Proposer is not in a position to speculate on the status of Entry Capacity held at other ASEPs and “second guess” whether Users will proceed with seeking capacity transfers.

Centrica holds Existing Capacity at the Caythorpe ASEP. The ASEP was established to permit the flow of gas into the NTS from the planned Caythorpe storage facility. The facility has not

been developed and as a result Centrica holds 90 GWh of NTS Entry Capacity over the period 1 Oct 2020 to 31 March 2025.

The following analysis assumes that Existing Capacity is transferred during the period 1 April 2021 to 30 September 2021 (the remainder of the Gas Year during which the prevailing NTS Entry Capacity Reserve Price is known).

Transfer Request of 90 GWh/d from Caythorpe (donor) to Easington (recipient)

Assuming an Exchange Rate of 1:1, table 1 shows a total of 16,470 GWh of Entry Capacity is transferred from Caythorpe to Easington.

Table 1: Quantities Transferred

Days	Month	Caythorpe	Easington	Total kWh
30	Apr-21	90,000,000	90,000,000	2,700,000,000
31	May-21	90,000,000	90,000,000	2,790,000,000
30	Jun-21	90,000,000	90,000,000	2,700,000,000
31	Jul-21	90,000,000	90,000,000	2,790,000,000
31	Aug-21	90,000,000	90,000,000	2,790,000,000
30	Sep-21	90,000,000	90,000,000	2,700,000,000
	Total			16,470,000,000

As described in this Modification, where transferred Existing Capacity “displaces” capacity which may have otherwise been sold at the prevailing entry capacity rate, then a cost to all Users will be generated. An estimate of the cost can be derived by comparing capacity already booked at the recipient ASEP (Easington) with the anticipated level of capacity booking over the relevant period.

Table 2 sets out the capacity bookings at Easington for the period April 2021 to Sept 2021 and for the purposes of establishing a forecast level of booking it is assumed that capacity bookings are equal to the average flows over each equivalent month during 2020.

Table 2: Estimating capacity bookings at Easington

	Obligated Sold 2021	Obligated Unsold 2021	Avg Flow 2020	Avg Flow - Oblig Sold
April	321,932,884	1,219,732,449	239,600,763	- 82,332,121
May	321,932,884	1,219,732,449	274,733,390	- 47,199,494
June	321,932,884	1,219,732,449	238,140,400	- 83,792,484
july	321,932,884	1,220,232,449	369,174,633	47,241,749
August	321,932,884	1,220,232,449	347,395,195	25,462,311
September	321,932,884	1,220,232,449	374,147,794	52,214,910

Table 2 shows that during April, May and June capacity already acquired at Easington exceeds forecast bookings (as bookings exceed flows). During the remaining three months additional capacity would be acquired to meet the excess anticipated flows. The last column in the table indicates that for the period April, May and June, there is no additional cost to Users as the 90 GWh/d of capacity transferred from Caythorpe is not required to satisfy flows.

Over the remaining three months a proportion of the 90 GWh/d of the transferred capacity would generate a cost for Users as the amounts shown in green displace volumes which would have otherwise been acquired at the prevailing price.

Table 3: Estimating the cost to all Users due to capacity booking displacement at Easington

Days	Month	Avg Flow - Oblig Sold	Total kWh Displaced	Cost @ Prevailing Price	Relative Cost
31	July	47,241,749	1,464,494,213	1,050,042	912,380
31	August	25,462,311	789,331,649	565,951	491,754
30	September	52,214,910	1,566,447,311	1,123,143	975,897
	Total			2,739,136	2,380,030

Table 3 estimates the cost to Users of capacity bookings displacement at Easington for the period 1 April to 30 September. Column 2 replicates the volumes shown in column 5 of table 2. Column 3 aggregates the daily bookings across the relevant months and represents the forecast total volume of Easington capacity displaced by the transfer. Column 4 determines a cost of the transfer using the prevailing Postage Stamp capacity rate of 0.0717 p/kWh/d. Using this approach, the total cost is £2,380,090. Column 5 reduces the figures in column 4 by adding back in the cost of the Existing Capacity, as it could be the case that if the User was terminated from the UNC, then these costs would have to be recovered from all Users. The cost estimate using this approach is £2,380,030.

If the User was unable to transfer its capacity and was terminated from the UNC, then further costs would be incurred by all Users.

Following the overview by NW of the above information and examples, David O'Neill (DON) said that he did not see how the Modification Proposal facilitated competition. NW said that the Proposal was to ensure costs were reflective where capacity was bought at the ASEP. He added that presently there was no suitable service to enable users to transfer product to another entry point, and that this process was consistent with the cornerstone of competition. He drew attention to the Easington example above. DON said transferring a cheap existing contracts to another ASEP would mean that some parties at the new ASEP will pay less and others will pay more which does not seem pro-competition. He added allowing this may be seen to be going beyond protecting existing contracts. DON also drew attention to the sentence "If the User was unable to transfer its capacity and was terminated from the UNC, then further costs would be incurred by all Users" and he asked if there was a likelihood of Centrica terminating from the UNC? Both NW and RHi said no, this was not the case, but other Users may be in a different situation.

A lengthy general discussion then took place on this subject and Bill Reed (BR) agreed that this process would enable parties who have capacity and are unable to use it, to then transfer this capacity which in turn would enhance competition and so there would be more gas flowing into the National Balancing Point (NBP). NW said that regarding the transferable gas at another entry point, if the capacity could not be used, the gas would then have a value and worth, as it could be used elsewhere. He explained this process would be subject to the restrictions as detailed in the Modification, that would have to be adhered to in relation to the capacity-abandoned capacity.

Dan Hisgett (DH) asked if the abandoned aspect was enduring or had to be re-applied for. NW said the capacity-abandoned aspect at the entry point was only abandoned for this single process and all the users would have to meet the criteria as defined in the Modification to be able to undertake the transfer process, and he added this process would have to be adhered to each time, each year. NW said he would add into the solution the discrete element of the capacity abandoned to give greater clarity to the overall process.

A further general discussion took place concerning the under recovery and any potential shortfalls on any capacity under recovered including the Forecasted Contracted Capacity (FCC). NW explained the analysis had used estimated volumes from previous flows. BR was interested in the National Grid under recovery and the FCC. NW said that he would provide more data analysis and would include the FCC numbers for a year, but he caveated this by saying this would again be an estimate.

New Action 1104: Centrica (NW) to provide additional FCC analysis from October 2020 for 12 months to generate an under-recovery value.

Julie Cox (JCx) said she felt the analysis was over-simplified with a 1:1 exchange rate and she would be interested to know about a more realistic number. NW reiterated that it was a 1:1 exchange rate. LJ said it would be possible to investigate an alternative exchange rate and RH said it would be useful from a sensitivity aspect. NW said that the data would be more misleading with a different exchange rate and that could lead to confusion as the exchange rate at Easington was 1:1. DON said it would also be helpful to understand the capacity tariffs at the Donor and Recipients entry points (ie how the price of the capacity transferred compared to the price of the available capacity at the recipient point. LJ said National Grid were not at liberty to share the actual rates on existing contracts due to confidentiality restrictions, though Centrica said they could disclose it for these purposes.

Ricky Hill (RHi) said that Centrica had looked at the legal compliance in relation to Article 35 in the EU TAR Code and they were happy that the intent of the solution was in-line with Article 35, as it stated that contracts could not be prolonged after an expiration date, so there was nothing counter to Article 35 within the Modification. He added that he had also investigated the ENTSOG Implementation Guide and again the Modification was in-line with these principles and that he would add reference to these topics within the amended Modification.

DON said that the Modification required compliance analysis in relation to Article 35 areas (merely saying something is not expressly prohibited is not the same as it being compliant) and he suggested that RHi also looked at Ofgem's decisions regarding existing contracts in their decisions on both Modification 0621- /A/B/C/D/E/F/G/H/J/K/L - Amendments to Gas Transmission Charging Regime and Modification 0678 - /A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime.

RHi confirmed he would encompass some of the appropriate wording and extra detail as required. NW again reiterated that the only aspect of any Existing Contract that would change would be the location, as the volume and price were fixed.

New Action 1103: Centrica (RHi) to investigate the Ofgem decisions regarding existing contracts as detailed in Modification 0621- /A/B/C/D/E/F/G/H/J/K/L - Amendments to Gas Transmission Charging Regime and Modification 0678 - /A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime, and to include further compliance analysis within the amended Modification.

3.0 Review of Impacts and Costs

RH explained that this area would be updated once the revised amended Modification had been submitted which would be a formally amended version v2.0.

RH provided an overview of the areas that had been captured in the previous minutes as to what needed to be included in the amended version of the Modification and or the Workgroup Report.

RH asked NW if he required an extension as the Modification was due to report to the December 2020 Panel. NW said that he felt that all was on track and that there were only a few amendments needed to the Modification v2.0, namely the redefinition of the capacity-abandoned and the discrete process regarding the annual basis. He added the amended version after v2.0 (i.e. v3.0) would contain the Business Rules and the additional analysis. It was also confirmed that the Legal Text would be completed by the next meeting in readiness for consideration by Workgroup.

4.0 Review of Relevant Objectives

RH sought agreement from the Workgroup concerning the Relevant Objectives and all concurred with the Proposer that these were applicable.

RH then provided an overview of the draft Consumer Impacts Section of the Workgroup Report and explained that NW had provided the draft content. NW said that he was going to update this section in the amended Modification to include the fact that Centrica were extremely unlikely to terminate from the UNC.

JCx said that it would be helpful to have analysis where there were no flows. Colin Williams (CW) and LJ said they would supply more data analysis on capacity bookings at ASEPs with no flows in the past gas year. BR concurred with JCx and said this would be very useful and would provide clarity on this topic.

New Action 1105: National Grid (LJ) to provide data on capacity bookings at ASEPs with no flows in the past gas year.

A brief general discussion took place proposing the incremental cost on consumers would be negligible and this was impossible to quantify, with the advantage of having more gas available for GB with capacity that was still flowed against. DON said this was assuming that the capacity already at that point would not have been used any way and he thought this was in incorrect assumption. NW said that there would be a marginal benefit to consumers, and Paul Youngman (PY) also agreed with this comment. RH said that within the Workgroup Report she would amend specific sentence to read 'may' rather than 'will'.

A further discussion took place concerning Commodity and Capacity costs in relation to Consumer Impacts and the fact that any increased charges may be placed on the consumer bills, and RH added narrative into the Workgroup Report that there could be an effect on the NBP, although it was believed this would be very minimal.

5.0 Consideration of Business Rules

NW confirmed that the Business Rules would be included within the amended Modification v3.0 and would be available prior to the next meeting to be held on 01 December 2020.

6.0 Development of Workgroup Report

RH said in the October Workgroup meeting, DON had expressed an interest in understanding the number of cases where a termination has been undertaken when entry capacity was being held. NW explained that he would not be able to correlate or conclude that a termination has been undertaken as a result of entry capacity being held. However, it may be possible to provide confirmation that capacity was being held by a party when that party was terminated. CW and LJ said they would investigate this area.

New Action 1106: National Grid CW/LJ to investigate instance where capacity was being held by a party when that party was terminated.

RH then provided a brief overview of certain areas of the Workgroup Report and confirmed she would amend this following the Workgroup discussions and this would be published on the website on 04 November 2020.

New Action 1107: Joint Office (RH) to publish the updated draft Workgroup Report to encompass the Workgroup meeting discussions.

Post Meeting Note: The updated draft Workgroup Report was published on 03 November 2020 on the meeting page.

7.0 Next Steps

RH said it was her aspiration for the next meeting on 01 December 2020, for the following areas to be confirmed and completed:

- Amended Modification v2.0 (Post meeting update: Centrica provided the formally amended Modification v2.0 encompasses the Capacity-abandoned aspect and the discrete nature of the process, on 05 November 2020, which was published)
- Amended Modification v3.0
- Joint Office/National Grid to have requested the Rough Order of Magnitude (ROM) from Xoserve and ideally received a response
- Review of additional analysis for clarification
- Further review of compliance
- Review of Business Rules
- Review of amended Modification v3.0 to include the Business Rules, analysis and compliance.
- Review of Legal Text
- Completion of Workgroup Report

8.0 Any Other Business

None.

9.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Programme
10:00 Tuesday 01 December 2020 Within NTSCMF	5pm Monday 23 November 2020	Via Microsoft Teams	<ul style="list-style-type: none"> • Amended Modification v3.0 • Joint Office/National Grid to have requested the Rough Order of Magnitude (ROM) from Xoserve and ideally received a response • Review of additional analysis for clarification • Further review of compliance • Review of Business Rules • Review of amended Modification v3.0 to include the Business Rules, analysis and compliance. • Review of Legal Text

			<ul style="list-style-type: none"> Completion of Workgroup Report
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Action Table (as at 03 November 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1101	03/11/20	2.0	Centrica (NW), agreed to provide more information to include the abandoned and discrete elements within the amended Modification v2.0 to enable the Rough Order of Magnitude (ROM) to be raised by Xoserve.	Centrica (NW)	Pending
1102	03/11/20	2.0	Joint Office (RH) to request the Rough Order of Magnitude (ROM) from Xoserve on receipt of the amended Modification.	Joint Office (RH)	Pending
1103	03/11/20	2.0	Centrica (RHi) to investigate the Ofgem decisions regarding existing contracts as detailed in Modification 0621- /A/B/C/D/E/F/G/H/J/K/L - Amendments to Gas Transmission Charging Regime and Modification 0678 - /A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime, and to include further compliance analysis within the amended Modification.	Centrica (RHi)	Pending
1104	03/11/20	2.0	Centrica (NW) to provide additional FCC analysis from October 2020 for 12 months' to generate an under recovery value.	Centrica (NW)	Pending
1105	03/11/20	4.0	National Grid (LJ) to provide data on capacity bookings at ASEPs with no flows in the past gas year.	National Grid (LJ)	Pending
1106	03/11/20	6.0	National Grid CW/LJ to investigate instance where capacity was being held by a party when that party was terminated.	National Grid (CW/LJ)	Pending
1107	03/11/20	6.0	Joint Office (RH) to publish the updated draft Workgroup Report to encompass the Workgroup meeting discussions.	Joint Office (RH)	Closed <i>Post meeting note: Published 03/11/20</i>